



# Working Hard for the Money: The Endless Fight against Fraud

Auditor of State Tera Klutz & Special Agent Mike Lepper  
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# What Auditor does NOT do ...

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- Audit the State
- Audit individuals
- Audit private corporations
- Audit local units of government



These duties are handled by the Indiana Department of Revenue and the State Board of Accounts.



# Role of the Auditor of State (AOS)

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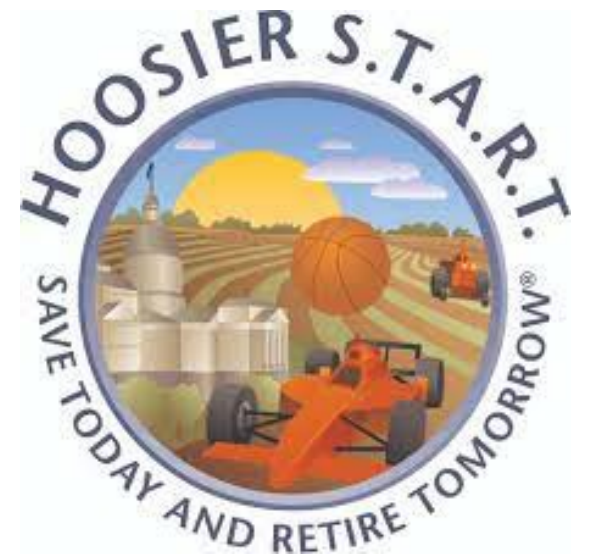
- Serves as the Chief Financial Officer of the State
- Responsible for Accounting & Reporting for the State
- Pay all State Employees & Vendors
- Constitutional Check & Balance with the State Treasurer



# Role of the Auditor of State, cont.

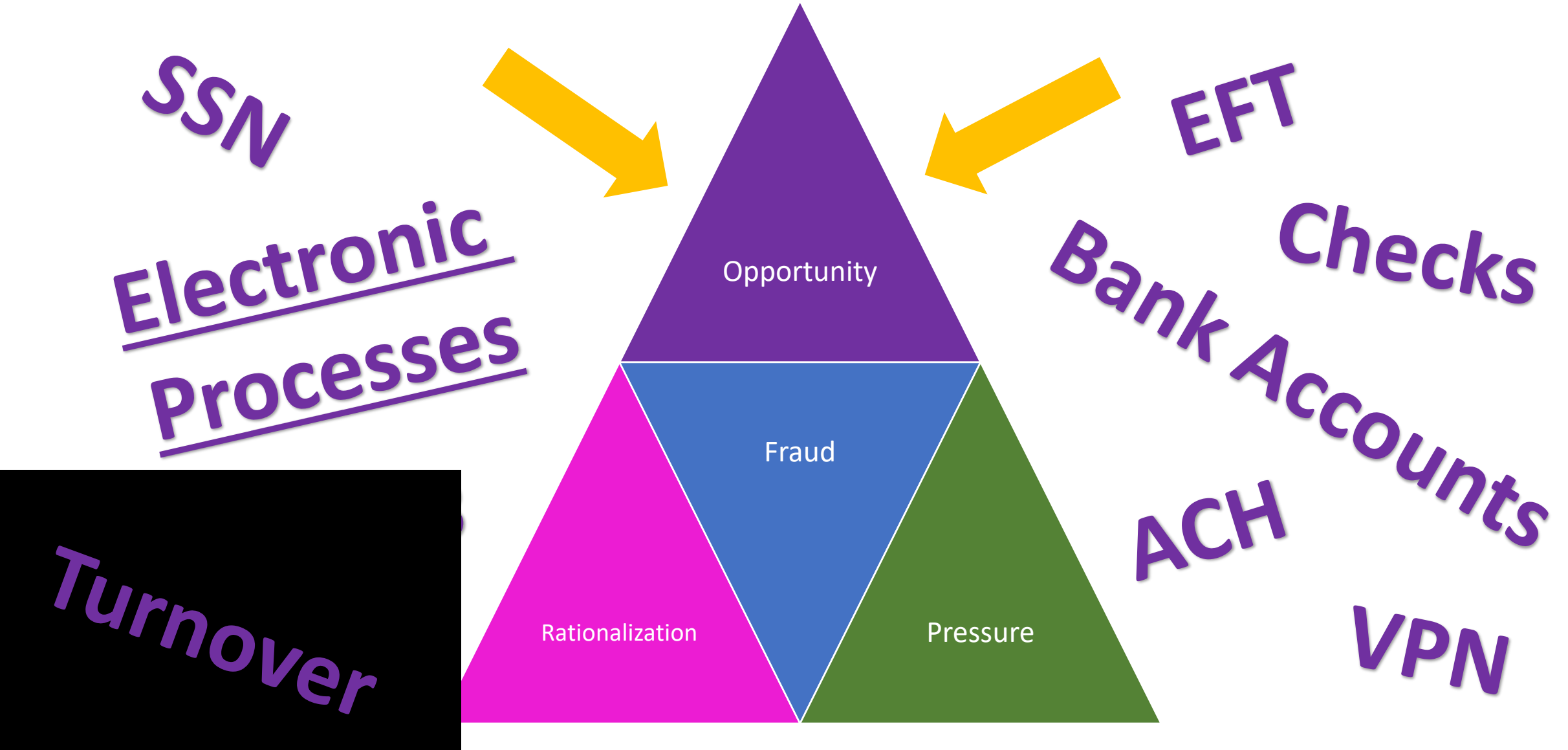
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- Serve on several State Boards & Commissions:
  - Indiana Board of Finance
  - Indiana Deferred Compensation Committee
    - Administrator for Hoosier S.T.A.R.T 457/401 plans
  - Indiana Board for Depositories
  - Indiana Public Retirement System (INPRS)



# Opportunities for Fraud

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# Inspector General

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- OIG becomes involved in these frauds usually after-the-fact.
- Best case scenario the Auditor's Office catches the attempt using their countermeasures i.e., calling the vendor/employee on a known telephone number to confirm the change.
- If the fraud is successful time is of utmost importance
- The sooner the Auditor/OIG is informed the better the chance to freeze the payment(s) before it is transferred or withdrawn.



# Inspector General

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- Over the years the fraudsters have adapted their schemes in response to Auditor countermeasures
- Today they hack a vendor or state employee's email address and send the change of direct deposit form to the Auditor
- In Outlook click on "rules" then "Manage rules and alerts" from here you can see any rules applied to your email and create rules



# Inspector General

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- The owner of the account (mule) have been in the U.S. but were likely a victim of a romance scheme and tricked into allowing their new friend to use their account to receive payments.
- We will follow the paper/electronic trail as far as we can, but in every case I know of the originator of the fraud has been in Africa or Eastern Europe
- **Be suspicious of these change of banking forms, the vendor/employee and the State of Indiana will be glad you were!**





# Proactive AOS Approach

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In 2017, AOS began documenting all policy & procedures

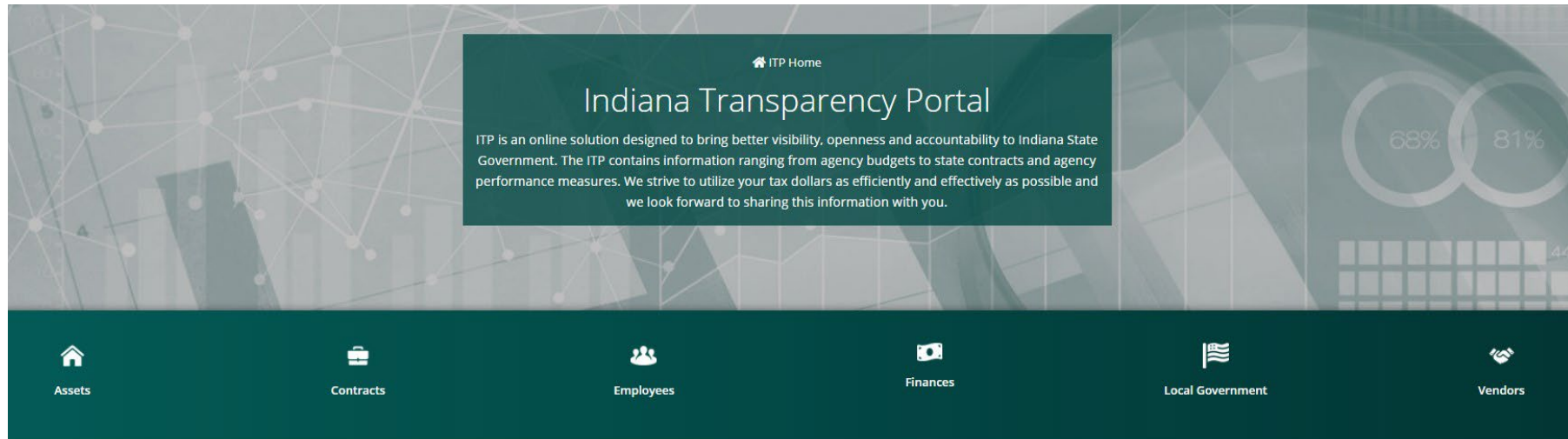
- First Step – Identify Procedures Performed
  - 201 procedures were initially identified & approximately 300 procedures by 2020
- Second Step – Create Standard Operating Procedures (SOP)
- Third Step – Review SOP for the following areas:
  - Management Awareness
  - Compliance with Federal & State Law
  - Identify Opportunities for Fraud- Insert Internal Control
- Fourth Step – Review/Repeat as processes change



# Proactive AOS Approach, cont.

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- Indiana Transparency Portal (ITP) Upgrade
  - New Website Interface, searchable by agency, vendor & fund
  - State Cash Balances by fund
  - Local Government Debt, Revenue by city, town & county



# Fraud Involving Trademark Renewal

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## 2021 – US Post Office/Patent & Fraud

- AOS received fraudulent letter to renew Hoosier START Trademark
- Incumbent wasn't aware the trademark existed
- Used internal files to legitimize the need for the renewal after 10 years
- Checked with Attorney & Supervisor, then emailed the contact on the fraudulent letter
- Received email back that upon receiving a check; the trademark would be renewed.
- Check mailed & cashed – Identified as fraud year later with actual notice of renewal email



# AOS Banking Fraud

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## 2022 – Theft & Fraud

- AOS received fraudulent AP Direct Deposit Change Form from State Agency requesting change to bank account
- AOS called vendor phone number for verification & processed change
- Received email from vendor wondering about two missing deposits
- Was able to work with Treasurer to recover 72% of funds
- Case is still pending with Inspector General



# AOS Continued Improvement

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AOS has experienced a significant increase in fraudulent direct deposit change forms over the past few years attempting to divert state funds.



- Current policy is to receive affirmative confirmation from each vendor/employee who submits a change to their deposit information.
- Continue to always adapt, review & scrutinize our procedures & trends.



# Questions & Contact Information

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**THANK YOU**